

**Center for Responsible Lending
Consumer Action
Consumer Federation of America
National Consumer Law Center
National Consumers League**

July 26, 2010

The Honorable Gabrielle Giffords
United States House of Representatives
Washington, DC 20515

Dear Representative Giffords:

National and state consumer organizations write to support your legislation to protect consumers in the small loan market. American families will benefit from your introduction of the **Predatory Lending Sunset Act (H. R. 5689)** to lower the cost of small dollar loans and to safeguard consumers' bank accounts and key assets. As families struggle to make ends meet in a down economy, your legislation is especially important.

The Predatory Lending Sunset Act imposes a realistic small loan rate cap for small dollar, short-term loans from all lenders. The 36 percent annual rate cap was recently upheld by voters in Arizona when an overwhelming majority voted to end payday lending at triple digit rates. This is the rate cap set by Congress to protect active-duty service members and their families and is the limit used by the Federal Deposit Insurance Corporation in its responsible small dollar loan guidelines.

While our organizations support a federal usury cap that applies to all forms of credit, your legislation capping rates for small loans is an important first step. Currently the typical payday loan costs 400 percent annual percentage rate (APR) while refund anticipation loans cost from 50 to 500 percent APR depending on the size of the loan. Car title loans in those states that permit this form of lending average 300 percent. High rates coupled with unaffordable repayment terms trap borrowers in repeat loans. A national 36 percent rate cap applied to all forms of short-term small-dollar loans will go a long way to curbing extremely expensive credit while making sure small loans are available for consumers with less than perfect credit.

The Predatory Lending Sunset Act also safeguards key financial assets for Americans. As Congress enacted for Service members, the bill bans short-term loans secured by unfunded checks, compulsory electronic access to bank accounts, and the title to the family vehicle. This legislation closes a loophole in the Electronic Fund Transfer Act that is exploited by online payday lenders to hi-jack borrowers' bank accounts.

The bill also prohibits lenders from using bank account information to create unsigned checks to withdraw loan payments from the bank. An end to "remotely created checks" or "demand drafts" will also curb telemarketing fraud where sellers trick consumers into revealing bank account information that is used to withdraw unauthorized payments from consumers' accounts.

On July 1, Arizona rolled back rates for payday loans to 36 percent and revoked authorization for loans based on unfunded checks. We look forward to working with you to extend these protections to all consumers who can least afford to pay triple-digit rates for small loans or to risk their bank account or transportation for a small loan.

Sincerely,

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Director of Financial Services

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Consumer Action

Lauren Saunders
National Consumer Law Center
(on behalf of its low income clients)

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